



# *Alliance of Western Milk Producers*

*Representing California's dairy cooperatives and their producer-owners since 1991*

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February 14, 2005

Kelly Krug, Director  
Division of Marketing Services  
California Department of Food and Agriculture  
1220 N Street  
Sacramento, CA 95814

Subject: Dairy Institute Class 1 Hearing Request 02/14/05

Dear Mr. Krug:

The Department has received yet another request from the Dairy Institute of California for a hearing to make adjustments to the Class 1 price formulas for Northern and Southern California. This is the third such request in six months. The Department appropriately saw fit to deny the first two petitions and the Alliance membership urges the Department to again deny the Institute's request.

In its third attempt at trying to get the Department to grant a hearing on its petition, the Institute cites several California statutes that talk about "intelligent production" and "orderly marketing," "eliminating economic waste," "minimum producer prices to provide reasonable incomes," and "reasonable relationship between classes of milk." The Institute conveniently leaves out another statute, Section 62062.1 of the Food & Agriculture code, regarding the minimum Class 1 price in California compared to minimum Class 1 prices in contiguous states being in reasonable relationship.

Alliance analysis of 2004 Class 1 prices show that the Southern California Class 1 price averaged 63 cents below the Arizona-Las Vegas Federal order Class 1 prices in Phoenix and 28 cents below the Yuma Class 1 price. For the first two months of 2005, the average difference has the Southern California price 68 cents less than Phoenix. In Northern California, the Class 1 price difference with the Pacific Northwest federal order was a negative 46 cents for 2004 and a negative 50 cents for the first two months of 2005. Doing what the Institute proposes, lowering the Class 1 price by 88 cents a gallon, will only exacerbate the reasonable relationship situation.

Clearly this first and most important test shows a distinct advantage for California processors compared to surrounding markets. This alone indicates a hearing should not be granted.

The statement that today Class 1 sales are less than a decade ago – comparing 2004 to 1994 – is true. But, that was not true comparing 2003 to 1993. And, the fact that sales declined is not unique to California. US Class 1 milk sales experienced similar declines in 2004, falling 1.1%.

The Department should also factor in the impact on sales of the low carb diet craze that swept the country in the second half of 2003 and through 2004. That diet says don't drink milk, eat cheese.

And, finally, in denying of the Institute's previous requests, the Department stated:

"California may not adopt regulations, the motivation of which is to handicap out-of-state shipments of milk into California."

Regardless of all the code section references in the Institute's current request and the new reasons given, the Department must consider the previous petitions that the Institute submitted and the fact that this petition will also result in a handicap to milk coming into California at the expense of California producers. Considering the pending appeal of the Hillside-Ponderosa case and the Dairy Institute's position in that case, holding a hearing on Class 1 prices at this time is not wise.

Therefore, the Alliance urges you to deny the Institute's petition as soon as possible.

Sincerely,

A handwritten signature in black ink that reads "Jim Tillison". The signature is written in a cursive, flowing style with a horizontal line above the name.

Jim Tillison, CEO

cc: Alliance Board of Directors

Dave Ikari, Dairy Branch Manager

A handwritten signature in black ink that reads "Jim Tillison". The signature is written in a cursive, flowing style with a horizontal line above the name.